

# Comparative City Survey of Funding Allocation Policies for Nonprofit Services

## EXECUTIVE SUMMARY

Between 2010 and 2013, mitigation funds, designated to be used for community benefits purposes, have been pledged to the City of Cambridge through zoning amendments and agreements with developers. These funds acquired through these amendments and negotiations with developers are public monies to be used for Community Benefit purposes. With this opportunity, the City seeks to develop a policy to determine how to best use these funds for purposes that benefit the community.

A leading approach suggested by the City Council is to use these funds to contract with local nonprofits for services to be provided in Cambridge. Entering into such contracts for services with the nonprofit community would extend the service reach to Cambridge residents. During discussions in 2013, the City Council further suggested that the City Administration meet with representatives of local nonprofits. Following the suggestion, the City Administration has continued to meet with representatives of the local nonprofit community, who have expressed both support for this idea and an interest in a fair and transparent process. Should the City Council decide to follow through on this idea, the next step is to develop a policy for the use of these funds in this manner.

This study examines how other cities establish policies to use public funds to obtain services from nonprofits. Emphasis is placed on how municipalities establish funding priorities and what needs assessment strategies municipalities use to inform funding priorities decisions.

This report surveys funding allocation policies for nonprofit services across thirteen North American cities including funds and grant programs in San Francisco (CA), Boston (MA), New York (NY), Chapel Hill (NC), Berkeley (CA), Seattle (WA), Tallahassee (FL), and Vancouver (BC). Data were collected through telephone interviews with municipal staff as well as review of relevant documents that address municipal policies for establishing funding priorities.

Though data of the various funding allocation policies are mixed, there are options to guide the development of an objective policy for the City of Cambridge. In the sections that follow, additional details may be found on funding allocation policies and strategies to assess community needs.

## Scope of Research

This report identifies how other municipalities have allocated funds to nonprofit organizations. A total of fourteen funds were studied; eleven of the funds use public dollars to contract with nonprofits for services, and three of the funds allocate money to nonprofits using private contributions. Of the fourteen funds, six of the funds have pre-determined uses, where funding priorities were set at the time the fund was created. Eight of the funds required that steps be taken to determine funding priorities. Data that were collected addressed funding allocation policies from beginning stages of the process through program evaluation.<sup>1</sup> This report addresses two key points:

1. *How were funding priorities established in these municipalities?*
2. *What strategies were employed in these municipalities to inform funding priorities?*

## Methods

Data was collected in two ways: review of relevant funding allocation plans and available online content as well as telephone interviews with municipal staff and fund organizers. Interview questions addressed the decision-making process for determining fund use, parties responsible for setting funding priorities, and details about the allocation policy including evaluation criteria, selection process, reporting and auditing, and program evaluation. Funds and grant policies were studied in the following cities: San Francisco (CA), Boston (MA), New York (NY), Chapel Hill (NC), Berkeley (CA), Seattle (WA), Tallahassee (FL), Cambridge (MA) and Vancouver (BC).

## Findings from Other Cities

This section highlights both the advantages and disadvantages of approaches to establishing funding priorities and offers key takeaways based on the results of the findings.

### 1. *How are funding priorities established?*

This report examines the two main approaches to establishing funding priorities including;

- An Outcomes Approach
  - A Broad Outcomes Approach
  - A Targeted Investment Strategy
- A Discretionary Approach
  - Subjective Decision Process

The majority of funds use more than one approach to establish funding priorities, thus, examples often overlap.

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<sup>1</sup>Funding allocation process beginning to end: Establishing funding priorities, governance, application process, review process, evaluation criteria, selection process, reporting and auditing, and program evaluation

## a) An Outcomes Approach

An outcomes approach refers to funds in which the funding priorities are determined following city goals and policies. In most instances, the legislative body, such as city council, initially sets broad funding priorities that may be reevaluated every one-to-three years. Once broad funding categories are established, city departments or an appointed board facilitate the process for determining specific funding strategies. Using an outcomes approach, there are two distinct methods for which city departments or boards determine how to allocate funds:

- A broad outcomes approach
- A targeted investment strategy

### A Broad Outcomes Approach

A broad outcomes approach applies to instances in which city council sets broad goals, and then enlists city departments or a board to determine which nonprofit agencies that applied should receive funding. Selection is based on how well the agency's plan meets both the city's broad goals and relevant evaluation criteria. With this method, nonprofits must demonstrate how their service or program meets a need in the community tied to a city's broader goals.

#### Example of a Broad Outcomes Approach: Direct Social Services Grants, Vancouver, BC

In Vancouver, BC, the City Council outlines the core funding priorities for the Direct Social Services Grant Program. Funding allocation is prioritized to nonprofit organizations that propose services and programs that reinforce or support city policy and priorities listed below. Once the City Council sets funding priorities, responsibility falls on nonprofits to indicate which funding priority their proposed program serves as well as to suggest best ways to use funds that fills unmet needs in the community. The City of Vancouver Department of Social Policy manages incoming applications and the selection process.

City of Vancouver's Core Funding Priorities:	
	• Homelessness Prevention
	• Support for Urban Aboriginal Peoples
	• Community Safety
	• Improving Service Access for Individuals with Mental Health & Addiction Challenges; Vulnerable Children, Family, and Youth; Newcomers, and Seniors
	• Promoting Inclusion, Belonging, and Connectedness

Table 1: City Council Broad Funding Priorities<sup>2</sup>

<sup>2</sup> City of Vancouver. Social Policy Division, Social Development Department. *2014 Community Services Grants: Information Sheet for Direct Social Services Grants*, <http://vancouver.ca/people-programs/direct-social-services-grants.aspx> (October 2013).

## A Targeted Investment Strategy

The second method for a city department or a board to determine how to allocate funds is through a targeted investment strategy. Similar to the previous method, city council sets broad goals, and then city departments or a board develops targeted strategies to which nonprofit agencies apply for funds. The difference between a broad outcomes approach and a targeted investment strategy is that the latter enables departments or boards to develop comprehensive funding strategies targeting particular outcomes and areas of need. Specific areas of need, such as demographic and/or geographic needs, are identified by means of community and data-driven needs assessments. A targeted investment strategy is a useful method for cities seeking to achieve particular outcomes through not for profit agencies as opposed to simply providing support for nonprofit agencies.

### Example of a Targeted Investment Strategy: Children's Services Allocation Plan, San Francisco, CA

The Children's Services Allocation Plan of San Francisco, CA represents a more strategic approach to establishing funding priorities. This fund starts with a predetermined city goal, however, the City Council enlists a city agency, specifically the Department of Children, Youth, and Their Families to further determine target service areas and investment strategies. The result is that the department develops an outcome-oriented funding allocation plan directly tied to the Council's annual priorities and goals as well as available data highlighting unmet need. Using this particular city agency approach, nonprofit organizations apply for funding tied to specific outcome-oriented service requests.

Table 2: San Francisco Department of Children, Youth, and Their Families' Funding Priorities & Investment Strategies<sup>3</sup>

Predetermined City Goals	Strategies Developed by City Administration	
Children's Services Allocation Plan Core Funding Priorities	Target Service Areas	Investment Strategies
→Children and Youth are Ready to Learn	Early care and education (Ages 0-5)	→Ensure access to high-quality child care →Support the professionalization of San Francisco's Early Childhood workforce →Improve early childhood program quality →Strengthen inclusive practices and inclusion system supports for children with special needs
→Children and Youth are Succeeding in School	Out-of-school time (Ages 5-13)	→Ensure access to comprehensive before-and-after school programs →Ensure access to comprehensive summer and school break programming →Ensure access to specialized activities →Develop and institutionalize core academic capacities at comprehensive K-8 after school and summer programs →Build programmatic capacity & improve service quality

<sup>3</sup> San Francisco Department of Children, Youth & Their Families. *Children's Services Allocation Plan 2013-2016*, prepared by LFA Group: Learning for Action [San Francisco, CA]: City of San Francisco, 2012.

→**TAKEAWAY:** The major difference between the Vancouver and San Francisco models for establishing funding priorities is that the latter model establishes funding priorities by formulating a comprehensive investment strategy. Thus, rather than relying on a patchwork of proposed nonprofit services as in the Vancouver model, city departments structure a policy in which they may request specific outcome-oriented services from nonprofits to serve the city's broader goals.

#### ADVANTAGES

- The benefit to an outcomes approach, specifically a targeted investment strategy, is that this plan results in clear outcome-based strategies that connect to both department and citywide goals and policies.

#### POTENTIAL RISKS

- The challenge of using the targeted investment strategy is that requested programs to serve city priorities may not line up with current nonprofit service offerings. This raises the concern of nonprofits chasing funds rather than apply for funds that match their service expertise.

### b) A Discretionary Approach

A discretionary approach refers to funds in which city council both sets the funding priorities and decides how to allocate funds. What marks the difference between an outcomes approach and discretionary approach to establishing funding priorities is that the latter entails the city council setting broad funding categories without establishing a policy to determine investment strategies or target service areas.

#### Subjective Decision Process

Problems have arisen in municipalities where in addition to taking on the role of setting broad funding goals, the city council has also administered distribution of the public funds directly. Despite the potential appeal for city council members to directly allocate funds to nonprofits for services and programs, there is no clear relationship between council member decisions and filling community needs by their spending choices. Rather, city councilors' allocation decisions are based on subjective reasoning, which has repeatedly resulted in public controversy. Numerous reports of city councilors abusing funds set aside for community benefit have led to multiple corruption charges, and to a widespread public distrust of the process.

#### Example of Subjective Decision Process: City Council Discretionary Funding, New York, NY<sup>4</sup>

The NYC City Council Discretionary Funding policy is a process in which a small portion (1%) of general revenue funds is allocated to city council members to spend on nonprofit services as they wish. Council members first establish broad funding priorities, which they may reassess every two years. During the annual budget process, monies are allocated to individual council members for each funding priority. At the time discretionary funding is available, nonprofit organizations may request funding directly from city council members. Alternatively for "Council Initiatives", nonprofits or individual council members may request additional funding from the Council Speaker to fund citywide services or programs that the individual member funds cannot cover.

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<sup>4</sup> New York City Council. *Discretionary Funding Policies and Procedures*, February 2013. Available at: <http://council.nyc.gov/downloads/pdf/budget/2014/14budget.pdf>

NYC Discretionary Funding Priorities	*Subject to change every two years*
<ul style="list-style-type: none"> <li>• <b>Aging Services-</b> Each member receives a fixed annual amount to fund senior services in his or her district<sup>5</sup></li> </ul>	
<ul style="list-style-type: none"> <li>• <b>Youth Services-</b> Each member receives a fixed annual amount for the provision of services for youth or community development</li> </ul>	
<ul style="list-style-type: none"> <li>• <b>Individual Initiatives-</b> Each member of the Council receives an amount each year to be used at the Member's discretion to meet local needs in the Member's district currently not being met by existing city agency programming.</li> </ul>	
<ul style="list-style-type: none"> <li>• <b>Council Initiatives-</b> Organizations may apply for funding directly to the Speaker, or Members may request that the Speaker choose to fund an organization whose scope of services exceeds their individual ability to fund, or which serves a larger geographical area. Council Initiatives funding is almost always citywide in scope.</li> </ul>	

### *City Council Abuse of NYC Discretionary Funds*

Though 2006 and 2008 reforms to the NYC Discretionary Funding process attempted to mitigate the illegal use of public funds by city councilors, recent charges against individual councilors and questionable actions by the Council Speaker have reopened discussions on banning the practice altogether.<sup>6</sup> Evidence shows that some city councilors have used this funding opportunity to channel public monies for personal benefit such as doling out funds to friends and family, or creating fictitious organizations to hold money to use at a later time.<sup>7</sup> The extent to which city councilors have engaged in illegal activities including bribery, political blackmail, fraud, and embezzlement is the primary reason this funding approach has drawn criticism and helped to tarnish the public's perception of city government. In light of the long-standing corruption, discretionary funding is still practiced in New York. However, its future is uncertain. With the induction of mayor, Bill deBlasio, an outspoken opponent of discretionary funding, it is unclear at what point the practice may be eliminated from the New York City budget process.<sup>8</sup>

→**TAKEAWAY:** While engaging city council to set broad funding priorities is one approach that has been used, having the city council directly allocate funds to nonprofits would be illegal under Massachusetts law and raises concerns about funding transparency and decision-making rationale.<sup>9</sup>

<sup>5</sup> In NYC, there are five council districts or boroughs: Manhattan, Queens, The Bronx, Brooklyn, and Staten Island

<sup>6</sup> Taylor, Kate. "Quinn Attacked over Council's Discretionary Funds." *New York Times. City Room*, December 13, 2011. [http://cityroom.blogs.nytimes.com/2011/12/13/quinn-attacked-over-councilsdiscretionaryfunds/?\\_r=0](http://cityroom.blogs.nytimes.com/2011/12/13/quinn-attacked-over-councilsdiscretionaryfunds/?_r=0):2013.

<sup>7</sup> Powell, Nick. "The Slush Fund Legacy and the Future of Member Items." *City & State. Budgets/Taxes*, August 5, 2013. <http://www.cityandstateny.com/slush-fund-legacy-future-member-items/> : 2013.

<sup>8</sup> "DeBlasio calls for Immediate Ban to Discretionary Funding." *New York City Public Advocate. Bill de Blasio Public Advocate for the City of New York*, April 13, 2013. <http://advocate.nyc.gov/news/2013-04-03/deblasiocalls-immediate-ban-discretionary-funding>: 2013.

<sup>9</sup> Citizens Union of the City of New York. *Creating a More Equitable and Objective Discretionary Funding Process in New York City*, By Rachael Fauss, May 2012. Available at: [http://www.citizensunion.org/www/cu/site/hosting/Reports/CU\\_Report\\_NYC\\_Discretionary\\_FundingFY009-2012\\_May2012.pdf](http://www.citizensunion.org/www/cu/site/hosting/Reports/CU_Report_NYC_Discretionary_FundingFY009-2012_May2012.pdf)

#### *ADVANTAGES OF THE SUBJECTIVE DECISION PROCESS*

- The subjective decision process allows city councils to allocate funds to nonprofits as they see fit
- The flexibility of “initiative” funding provides opportunities to fund innovative programs and services

#### *POTENTIAL RISKS OF THE SUBJECTIVE DECISION PROCESS*

- The New York City model would be an illegal appropriation of funds under Massachusetts statutory and constitutional law, specifically the “Anti-Aid” Amendment, municipal finance laws and the City’s charter
- Lack of funding transparency
- Funding strategies are not necessarily tied to a comprehensive vision or city goals
- Use of subjective reasoning and the relationship between nonprofit funding and campaign contributions raise questions about effectiveness of this model
- Funding decisions based on future runs for public office

## *2. What Strategies Exist to Inform the Establishment of Funding Priorities?*

Municipalities use a variety of strategies to assess community needs. Needs assessments range from basic to comprehensive using qualitative or quantitative data, or, very often a combination of both to inform funding priorities. Best practice seems to indicate that municipalities benefit when using a combination of both community-and-data-driven needs assessments to establish funding priorities. Using both methods not only includes multiple stakeholders, such as service providers, residents, and municipal staff, in assessing unmet needs, but available data helps to inform potential target areas within the community that may provide a greater return on investment.

### *a. Data-Driven Needs Assessment*

Available quantitative data is used to map out and identify target populations and areas of need within a community. Using various indicators or risk factors, quantitative data can be helpful to construct a geography where human needs may be more intensive.

#### Example of Using Selected Risk Factors to Map Human Service Needs: *Children’s Services Allocation Plan, San Francisco, CA*<sup>10</sup>

To gauge San Francisco’s children’s services needs, the Department for Children, Youth, and Their Families uses selected risk factors as well as zip codes with the highest concentration of poverty to map out areas in need. Combining poverty and selected indicator measurements, the DCYF develops an index of need measurement. Areas indicating a high index of need on the map presumably are neighborhoods to consider concentrating funding for nonprofit services. DCYF first identifies concentrated needs, specifically highlighting racial and ethnic groups with disproportionate need. Following this initial process, DCYF then uses the identified risk factors listed below to map target populations across the city.

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<sup>10</sup> San Francisco Department of Children, Youth & Their Families, City of San Francisco, 2012

San Francisco's Children's Services Allocation Plan – Target Populations	
<b>Citywide/Universal Need</b>	→ <i>All San Francisco children, youth &amp; families</i>
<b>Concentrated Need</b>	→ <i>Neighborhoods where need is concentrated</i> → <i>Racial and ethnic groups with disproportionate need</i>
<b>Identified risk factors</b>	
→ <i>At-risk children, youth &amp; families</i> Poverty, underhoused, undocumented, English learner, teen parent, LGBTQ, special needs, mental health needs including substance abuse, depression/anxiety, academic underperformance or disconnected from school	→ <i>In-risk children, youth &amp; families</i> Exposure to violence, abuse or trauma, serious mental health needs including severe depression/suicidal ideation, chronic truancy, negative street associations, systems involvement (e.g. criminal justice)

## b. Community-Defined Needs Assessment

A community-defined needs assessment incorporates local stakeholder input in defining a community's needs. Local stakeholders may include agency providers, residents, community organizers, and municipal staff.

### Example of Incorporating Stakeholder Input: Outside Agency Funding, Chapel Hill, NC<sup>11</sup>

Outside Agency Funding in Chapel Hill, NC is a fund set up to disburse public monies to nonprofit organizations for services. With assistance from the University of North Carolina Chapel Hill, the town conducted a human service needs assessment to help inform the town council's decision in determining funding priorities. Exclusively using qualitative strategies, graduate students from the School of Government organized interviews with community leaders, service agency providers, and held focus groups with community organizations. Based on timing and limited resources, the graduate students chose not to interview human services agency clients and residents. From this needs assessment, a total of six funding priorities were identified of which the town council selected three to focus for annual funding priorities.

Chapel Hill Outside Agency Funding Human Service Needs Assessment	
Community Recommended Priorities	Town Council Decided Priorities FY 2013-14
Affordable Housing	<ul style="list-style-type: none"> <li>To fund safety net services for disadvantaged residents</li> </ul>
Affordable Healthcare	<ul style="list-style-type: none"> <li>To fund education, mentorship, and afterschool programming for youth</li> </ul>
Education & Family Resources	<ul style="list-style-type: none"> <li>To fund programs aimed at improving resident health and nutrition</li> </ul>
Jobs & Training	
Food	
Transportation	

<sup>11</sup> Chapel Hill Human Services Advisory Board. *Human Service Needs in Chapel Hill: A Needs Assessment for the Town of Chapel Hill's Human Services Advisory Board*, Prepared by The School of Government, UNC Chapel Hill. [Chapel Hill, NC] Town of Chapel Hill, 2012.



### Needs Assessments Best Practice: Using a Combination of Community-and Data-Driven Strategies

When municipalities depend on community-defined needs to establish funding priorities, they cannot be sure that they will target geographic areas with the greatest concentration of needs. On the other hand, relying solely on data-driven strategies can exclude funding categories that are not easily measurable i.e. arts and culture. Instead, results show that using a combination of both community-defined and data-driven strategies helps to create a fuller picture of community needs as well as potentially indicate areas that might benefit from more investment.

### Summary

The municipalities examined in this study have employed two different assessment strategies to inform priorities for the use of public funds to obtain services from nonprofits. These distinct assessment strategies provide a framework for how the City of Cambridge might formulate an appropriate policy for the use of its community benefit funds. It is important however to note certain key differences between the municipalities discussed in this study and the City of Cambridge. For example, the municipalities discussed in this study have different laws in place governing public finance; and the New York City example cited above, would not be a model that could be implemented in Cambridge due to the Massachusetts "Anti-Aid" Amendment to the Massachusetts constitution and Massachusetts municipal finance laws. Furthermore, in Cambridge, the City Council cannot enter into such contract agreements as that is within the responsibilities of the City Manager.

## Cambridge Nonprofit Coalition

January 26, 2015

To the Honorable, the City Council,

As members of the Steering Committee of the Cambridge Nonprofit Coalition, we are writing to support the framework recommended by the City Manager for a Community Benefits and Mitigation Plan. We have had a series of meetings with the City Administration to provide our input into the development of the plan, and we believe the recommendations presented to you effectively incorporate criteria for the community benefits process that were agreed upon at a summit meeting attended by more than 40 nonprofit agencies in Cambridge.

Executive Directors from a wide spectrum of nonprofit organizations in Cambridge have been meeting regularly for nearly two years to discuss issues of mutual concern in providing services to residents of Cambridge and to build an effective network of nonprofit agencies in the city. The mission of the Coalition is to strengthen the Cambridge nonprofit sector by building collective voice and promoting collaboration in order to meet changing needs and improve the quality of life for the community. Our participation in assisting in the development of the City Manager's Plan is a significant demonstration of the collaborative and inclusive approach that the Coalition strives to achieve, working productively together across sectors and in partnership with city officials.

As the City Administration was conducting research on best practices for municipal funding allocation, the nonprofit coalition was doing its own research and reviewed the city's research survey. The plan developed by the City Administration and presented to you is based on best practices from other cities' experiences, and it will meet the requirements of the Massachusetts Anti-Aid Amendment and the particular circumstances of the City of Cambridge.

Key criteria that are crucial to the Cambridge nonprofit community and have been incorporated in the City Manager's development of the proposed plan and in the plan itself are:

- Community and data-driven needs assessment
- Funding decisions are based on the outcomes of the needs assessment
- Inclusion of nonprofits in the needs assessment, process oversight and decision making
- Transparent process that is simple, clear, and value-driven
- Informed design process based on best practices
- A decision making body that is inclusive and represents Cambridge diversity

We look forward to continuing our involvement with the city as active participants in the needs assessment and the further development of a governance structure for the community benefits

process. We urge the City Council to endorse City Manager's framework and to support the subsequent steps that he will bring to the Council to implement the framework.

Sincerely yours,

Michael Delia, East End House

Risa Mednick, Transition House

Barbara Mitchell, Community Legal Services and Counseling Center

Maria Mossaides, Cambridge Family and Children's Service

On behalf of the Cambridge Nonprofit Coalition Steering Committee